

Gap Inc.

Fiscal 2016

Third Quarter Earnings Results

Sabrina Simmons

Executive Vice President &
Chief Financial Officer

Forward Looking Statements

This conference call and webcast contain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are forward-looking statements. Forward-looking statements include statements identified as such in our November 17, 2016 press release.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results to differ materially from those in the forward-looking statements. Information regarding factors that could cause results to differ can be found in our November 17, 2016 earnings press release, our Annual Report on Form 10-K for the fiscal year ended January 30, 2016, and our subsequent filings with the U.S. Securities and Exchange Commission, all of which are available on gapinc.com.

These forward-looking statements are based on information as of November 17, 2016. We assume no obligation to publicly update or revise our forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

SEC Regulation G

This presentation includes the non-GAAP measures adjusted net income, adjusted earnings per share, adjusted operating expenses, and free cash flow. The description or reconciliation to GAAP of these measures is included in our November 17, 2016 earnings press release, which is available on gapinc.com.

Net Sales

(In Billions)

Gap Inc.

Q3

YTD

\$3.80

\$3.86

\$11.09

\$11.41

2016

2015

2016

2015

Comp	(3%)	(2%)	(3%)	(3%)
Net Sales Growth vs. Prior Year	(2%)	(3%)	(3%)	(3%)
Net Sales Growth vs. Prior Year in Constant Currency ⁽¹⁾	(2%)	Flat	(3%)	Flat

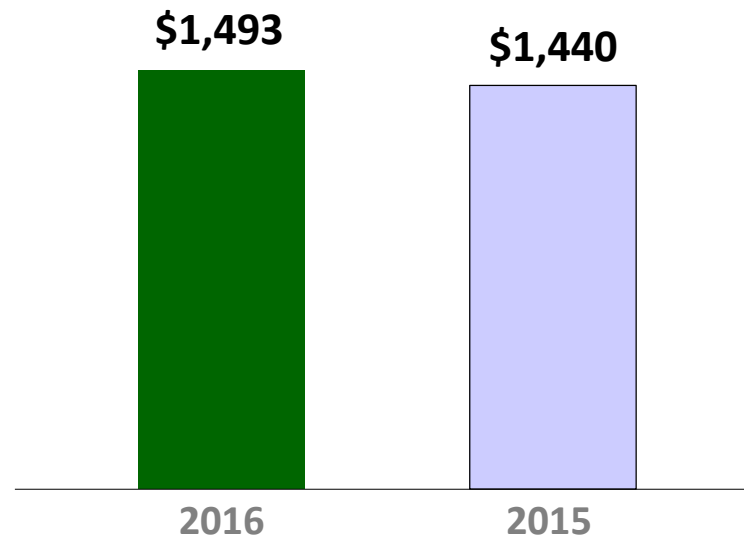
(1) In calculating the net sales change on a constant currency basis, current year foreign exchange rates are applied to both current year and prior year net sales. This is done to enhance the visibility of underlying sales trends, excluding the impact of foreign currency exchange rate fluctuations

Q3 Gross Profit

(In Millions)

Gap Inc.

Reported



Gross Margin

39.3%

37.3%

Merchandise Margin

220bps

(240bps)

B/(W) LY

ROD % of Sales B/(W) LY

(20bps)

(50bps)

Q3 Operating Expenses

(In Millions)

Gap Inc.

Reported

Adjusted ⁽¹⁾

\$1,104

\$1,026

\$1,068

\$1,019

2016

2015

2016

2015

As a % of sales

29.1%

26.6%

28.1%

26.4%

Marketing Expenses

\$148

\$142

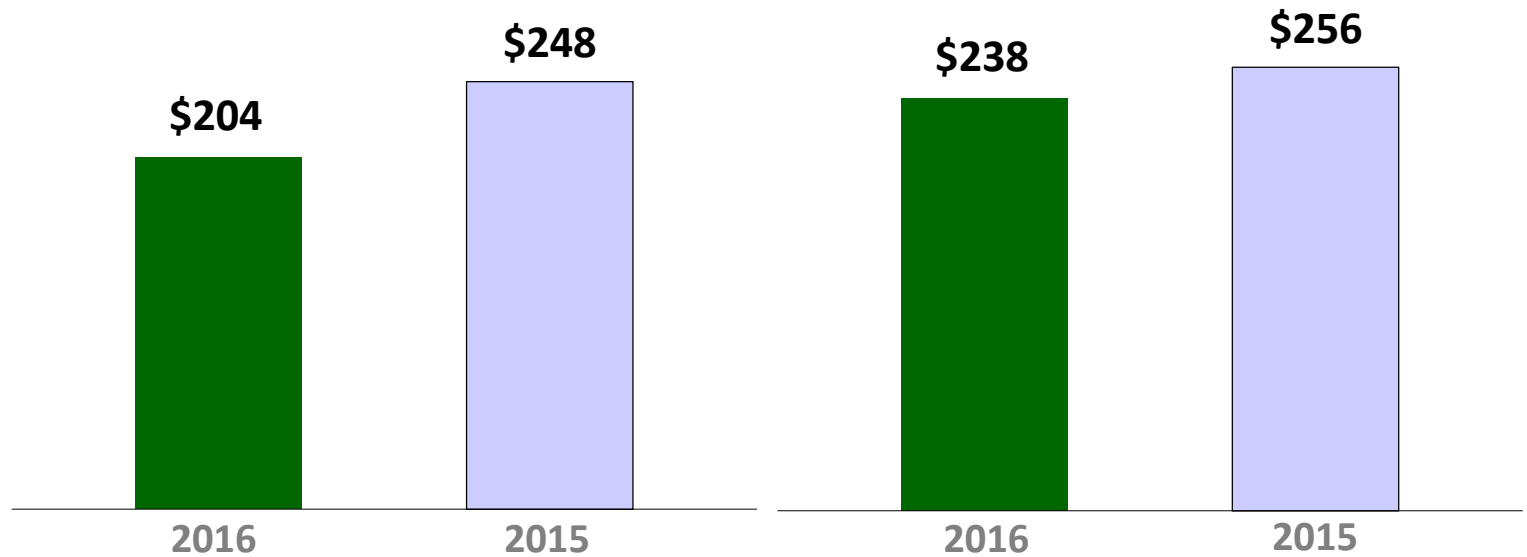
Q3 Net Income

(In Millions)

Gap Inc.

Reported

Adjusted ⁽¹⁾



EPS	\$0.51	\$0.61	\$0.60	\$0.63
EPS Growth YoY	(16%)	(24%)	(5%)	(21%)
EPS Growth Excluding Estimated YoY Impact Of FX vs. Prior Year			0%	(15%)

- **Total inventory down about 4% percent at the end of Q3**
- **Year-to-date free cash flow of over \$415 million**
- **Ended with \$1.5 billion in cash and cash equivalents**
- **Ending share count was 399 million**
- **Year-to-date capital expenditures of \$383 million**
- **Square footage down 2% at the end of Q3**

Fiscal 2016 Outlook

(As of November 17, 2016)

Gap Inc.

	2016 Guidance	
	Low End	High End
Expected adjusted earnings per share ⁽¹⁾	\$1.87	\$1.92
Estimated restructuring costs	~\$0.46 - ~\$0.42	
Expected reported earnings per share	\$1.41	\$1.50

(1) Excludes the estimated earnings per share impact of restructuring costs related to store closures, streamlining the company's operations and certain incremental tax expenses

Fiscal 2016 Outlook

(As of November 17, 2016)

Gap Inc.

Full Fiscal Year 2016

Reported Diluted Earnings per Share	\$1.41 - \$1.50
Adjusted Diluted Earnings per Share⁽¹⁾	\$1.87 - \$1.92
Company-Operated Stores:	
Net Store Closures	About 65
New Athleta Stores	About 15
New China Stores	About 25
Square Footage Change	Down about 3%
Capital Expenditures	About \$525 million
Depreciation and Amortization⁽²⁾	About \$550 million
Effective Tax Rate (Reported)	About 44%
(Adjusted)⁽³⁾	About 40%
 <u>End of Q4-16</u>	
Gap Inc. Total Inventory \$ (YoY % Change)	Down low single digits
Estimated Negative Impact From Fishkill DC Fire	~1pt of comp in Q4

(1) Excludes estimated earnings per share impact of restructuring costs related to store closures, streamlining the company's operations and certain incremental tax expenses

(2) Net of amortization of lease incentives

(3) Excludes tax effect of restructuring costs

Gap Inc.